

STATE OF WASHINGTON

MIKE KREIDLER
STATE INSURANCE COMMISSIONER



SEATTLE OFFICE
CENTRAL BUILDING
SUITE 650
810 THIRD AVENUE
SEATTLE, WASHINGTON 98104-16

OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. G 02-32
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
PEMCO LIFE INSURANCE)	AND ORDER ADOPTING REPORT
COMPANY)	OF
)	FINANCIAL EXAMINATION

A Domestic Insurer. _____

BACKGROUND

An examination of the financial condition of **PEMCO LIFE INSURANCE COMPANY** (the Company) as of December 31, 1997 and 1998, was conducted by examiners of the Washington Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on September 24, 2002. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 24 of the report.



CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **PEMCO LIFE INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions section of the report. The Commissioner acknowledges that the Company may have implemented the Instructions prior to the date of this order. The Instructions in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, this being the Instructions contained in the examination report on page 2.

1. The Company is ordered to comply with WAC 284-02-080 and file all amendments to its bylaws with the insurance commissioner. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with WAC 284-07-050(2) which requires adherence to the appropriate Annual Statement Instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC for the completion of the annual statement. Instruction 2, Examination Report, page 2.

The Company is also ordered to comply with RCW 48.05.250 which requires the Company to file with the insurance commissioner a true annual statement of its financial condition, transactions, and affairs. Instruction 2, Examination Report, page 2.

3. The Company is ordered to comply with RCW 48.05.280 and keep full and adequate accounts and records of its assets, obligations, transactions, and affairs. Instruction 3, Examination Report, page 2.
4. The Company is ordered to comply with RCW 48.07.040 and hold an annual meeting of its shareholders or members at such time and place as may be stated in or fixed in accordance with its bylaws. Instruction 4, Examination Report, page 2.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 29th day of October, 2002.


MIKE KREIDLER
Insurance Commissioner



PEMCO Life Insurance Company

Part of PEMCO Financial Services: EvergreenBank, PEMCO Corporation, PEMCO Insurance, Washington School Employees Credit Union

Stan W. McNaughton, President

September 23, 2002

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Office of the Insurance Commissioner
P.O. Box 40259
Olympia, WA 98504-0259

RECEIVED
SEP 24 2002
INSURANCE COMMISSIONER
COMPANY SUPERVISION

Re: PEMCO Life Insurance Company
Report of Examination as of December 31, 1997 and 1998

Dear Deputy Commissioner Odiorne:

Thank you for the opportunity to review the draft of the referenced report of examination. The findings and conclusions of the examiners and actuary involved in the examination resulted in four instructions for PEMCO Life Insurance Company (the "Company"). We will comply with each instruction. In most instances we have already addressed the items referenced in the report.

The findings of the examiners and actuary were incorporated into a transformation process that the Company initiated in late 1998. Prior to that time the Company was treated as a subset of the other business entities within the PEMCO holding company system. The examination findings occurred during the time that we were developing and implementing the strategy, business plan, and processes for revitalizing the Company. This included repositioning the Company by creating its own dedicated management structure. We are a better company today because of our renewed focus and the questions raised by your examiners and actuary. Thank you for the time and effort of your staff.

At your request, we offer the following comments.

Regarding the section entitled "INSTRUCTIONS" listed on page 2 of the report:

1. **THE COMPANY IS INSTRUCTED** to comply with **WAC 284-02-080** and file all amendments to its bylaws with the insurance commissioner.

RESPONSE:

During the examination, all of the Company's amended bylaws filings were brought current. Any future amendments to the bylaws will be filed with the insurance commissioner as required.

2. **THE COMPANY IS INSTRUCTED** to comply with **WAC 284-07-050(2)** which requires adherence to the appropriate Annual Statement Instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC for the

PEMCO Life Insurance Company

Home Office: 325 Eastlake Avenue E. ♦ P.O. Box 778 ♦ Seattle, WA 98111-0778 ♦ (206) 628-7900 ♦ 1-800-552-7430 toll free

Spokane Office: 2002 N. Atlantic Street ♦ Spokane, WA 99205-4805 ♦ (509) 328-8900 ♦ 1-800-422-5768 toll free

TTY access: 1-800-628-6066 ♦ www.pemco-ins.com



RECYCLABLE
PAPER

completion of the annual statement. **RCW 48.05.250** requires the Company to file with the insurance commissioner a true annual statement of its financial condition, transactions, and affairs.

RESPONSE:

The examination refers to adjustments to reserves noted in the **Notes and Comments to Financial Statements** (notes 3,4,5,6,7) with the primary adjustment noted under **Aggregate Reserve for Life Policies and Contracts**. In 2001 we appointed an actuary to work with us to review the reserve and net premium factors in our valuation system and we asked for their assistance in improving our process for completion of the Annual Statement. Additionally, we engaged the actuary to perform an asset adequacy analysis for selected lines of business. The actuary performed this analysis to determine the statutory reserve adequacy of the Company and to express their actuarial opinion concerning our reserves and the assets deemed to support such reserves. The information was prepared and the resulting Actuarial Memorandum as of December 31, 2001 was subsequently provided to the Office of the Insurance Commissioner in early 2002. We believe the results and conclusions reached by the analysis demonstrated that the Company's level of statutory reserves (as shown in the 12/31/2001 Annual Statement) is adequate to fund future benefits and expenses. It is our intention to request an asset adequacy analysis annually and to see that any additional reserves needed are reflected in the December 31 statutory financial statement. Moving forward, we have taken steps to ensure the accuracy of all established reserves referenced in the **Notes and Comments to Financial Statements**.

The examination also references at page 22 that the Asset Valuation Reserve was not completed correctly. Moving forward with the 2000 annual statement, the Asset Valuation Reserve has been calculated as required by WAC 284-07-050(2) and RCW 48.05.250, according to the NAIC Annual Statement Instructions for Life, Accident and Health and the Securities Valuation Office Purposes and Procedures Manual.

3. **THE COMPANY IS INSTRUCTED** to comply with **RCW 48.05.280** and keep full and adequate accounts and records of its assets, obligations, transactions, and affairs.

RESPONSE:

Please refer to the response to Instruction #2. Additionally, the report references a comment at page 13 that, "claim files did not contain relevant data, such as report dates, communications between the Company and the claimant, reasons for waiving requirements such as timely notice, or basic coverage information." Our claims procedures ensures that this information is contained in the files as required. However, we apparently failed to provide the actuary with the complete claims files as requested. This issue is related to our larger concern that we have since continued to

address; namely, our ability to thoroughly and quickly provide examiners with assistance and information as requested. We are committed to improve in this area.

The examination states that the board of directors' minutes do not show evidence of discussion or amendments to cost sharing agreements or discussion of conflict of interest and confidentiality policy information. Discussions, including a review of the elements of any cost sharing agreements or their amendment, and discussions of the conflict of interest and confidentiality policy have been incorporated into the agenda planning process for the board of directors.

The examination also reports that the security custodial agreement was not signed by an authorized company officer. This has been corrected and in the future all securities custodial agreements will be fully executed and signed by an authorized company officer.

4. **THE COMPANY IS INSTRUCTED** to comply with **RCW 48.07.040** and hold an annual meeting of its shareholders or members at such time and place as may be stated in or fixed in accordance with its bylaws.

RESPONSE:

Since 2000, the annual meeting has been held in compliance with the Company's bylaws.

Finally, we note that EvergreenBank is listed on the Organizational Chart at page 4 under the heading "Companies under common management." EvergreenBank is part of an *alliance* of companies. As reflected in the Organizational Chart, not all of the allied companies are "*affiliates*" as defined by law. EvergreenBank correctly appears as a company outside the PEMCO holding company system because it is not an affiliate within that group.

To avoid any confusion, we think it appropriate to delete reference to the bank as being "under common management." There were relatively few overlapping directors between the Company and the bank during the period under examination. Moreover, for some time now the Company and the bank (and the bank's parent) have had only one director in common, out of nine positions on each of their boards.

If the commissioner decides to retain references to the bank as being under common management during the period under review, we think it worth noting at page 14 under "SUBSEQUENT EVENTS" that the bank is not now under common management. The following could be added after the update regarding Reinsurance:

There were also changes outside the holding company system.

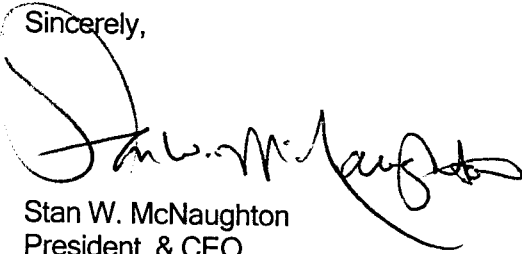
EvergreenBank: EvergreenBank is today a wholly-owned subsidiary of EvergreenBancorp, Inc., a publicly traded bank holding company formed in 2001. The bank and its parent have only one director in common with the Company.

Mr. James T. Odiome, CPA JD
State of Washington
Office of the Insurance Commissioner
September 23, 2002
Page 4 of 4

EvergreenBank and its parent are not under common management with the Company.

If you have any further questions regarding these items or anything else in regards to our report of examination for the period ended December 31, 1997 and 1998, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Stan W. McNaughton". The signature is fluid and cursive, with a large initial "S" and a long, sweeping underline.

Stan W. McNaughton
President & CEO
PEMCO Life Insurance Company